belonging to the Teacher's Retirement System of Louisiana and to the Louisiana School employee's Retirement System are not eligible for payment of unused sick leave upon retirement or death. L.R.S. 17:425 on the other hand provides for payment for up to 25 days of unused sick leave for members of these two systems. In Opinion Number 94-373, the Attorney General opined that the Civil Service Commission had jurisdiction over classified employees and therefore those members are not eligible for payment of unused sick leave. Because the Commission has no authority over unclassified employees, those members are eligible to receive such compensation.

2. Compensatory Leave (Use for Non-Exempt Employees)
Employees who are considered having non-exempt status according to the guidelines contained in the Fair Labor Standards Act may be paid for compensatory leave earned (K-time). Upon termination or transfer an employee will be paid for any time and one-half compensatory leave earned and may or may not be paid for any straight hour-for-hour compensatory leave earned. Compensation paid will be based on the employee's hourly rate of pay at termination or transfer. The liability for accrued payable compensatory leave at June 30, 1997 computed in accordance with the Codification of Governmental Accounting and Financial Reporting Standards, Section C60.105 is estimated to be $ 2.71 . The leave payable is recorded in the accompanying financial statements.

J. RETIREMENT SYSTEMS

Substantially all of the employees of the agency belong to the Louisiana State Employee's Retirement System a defined benefit pension plan. The Louisiana State Employee's Retirement System is a statewide public employee retirement system and is available to all eligible employees. The System publishes yearly annual financial reports which include detailed historical, financial, and actuarial information.

K. JUDGEMENTS, CLAIMS AND SIMILAR CONTINGENCIES

Obligations and losses rising from judgements, claims, and similar contingencies are paid through the state's self-insurance fund and are reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's risk management program.

Claims and litigation cost of __$144,892,230__ were incurred in the current year and are reflected in the accompanying financial statements.

L. LEASE AND RENTAL COMMITMENTS

Lease agreements, if any, have non-appropriation exculpatory clauses that allow lease cancellation if the Legislature does not make an appropriation for its continuation during any future fiscal period. Total operating lease expenditures for fiscal year 1996-1997 amounted to $120,498.96.

1. OPERATING LEASES

Operating leases are all leases which do not meet the criteria of a capital lease. Operating leases are grouped by nature (i.e. office space, equipment, etc.) and the annual rental payments for the next five fiscal years are presented in the following schedule.

Rental expense for operating leases with scheduled rent increases is based on the relevant lease agreement except in those cases where a temporary rent reduction is used as an inducement to enter the lease. In those instances, rental expense is determined on either a straight-line or interest basis over the term of the lease, as required by GASB 13, and not in accordance with lease terms. The agency does not have leases with scheduled rent increases due to temporary rent reductions used as an inducement to enter the lease. The resulting revenues/expenses are (are not) shown on the statement of operations. If not included on the statement of operations, attach a schedule listing all such leases.

Nature of Operating Lease	1997-98	1998-99	1999-2000	2000-01	2001-02	Thereafter
a. Office Space	$ 107,472	$ 26,416	$ 26,416	$ 26,416	$ 10,362	$
b. Equipment						
c. Land						
d. Other						

2. CAPITAL LEASES AND LEASE PURCHASES

Capital leases are defined as an arrangement in which any one of the following conditions apply (1) ownership transfers by the end of the lease, (2) the lease contains a bargain purchase option, (3) the lease term is 75% of the asset life or (4) the discounted minimum lease payments are 90% of the fair market value of the asset.
The Office of Risk Management has no Capital Leases in effect as of 6/30/97.

M. IMPREST FUNDS

The agency maintains a permanent Travel and Petty Cash Imprest Fund in the amount of $ 8,500.00 as authorized by the Commissioner of Administration and advanced by the State Treasurer's Office in accordance with Title 39. The funds are permanently established and periodically replenished from agency operating funds when expenditure vouchers are presented.

N. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS PER GASB 12

LRS 42:821 through 42:880 establishes the self-insured and self-funded state employees group health care and life insurance program and authorizes the Office of Risk Management to provide certain continuing health care and life insurance benefits for its retired employees. Substantially all of the agency's employees become eligible for those benefits if they reach normal retirement age while working for the agency. Monthly premiums are paid jointly by the employees and the employer (from the agency appropriation) for both retirees' benefits and active employees benefits regardless of whether benefits are provided by Group Benefits or one of the HMO's authorized by Group Benefits. The agency recognizes the cost of providing benefits as an expenditure when paid during the year. For the year ended June 30, 1997, the costs of retirees' benefits totaled $ 40,677.16 , while the number of retirees is 15 . The cost of retirees' benefits is net of participant's contribution.

Notes to the Financial Statement

O. CASH AND INVESTMENTS

As reflected on Balance Sheet , the agency had cash and cash equivalents totaling $ 130,676,800 at June 30, 19 97 . All funds are deposited with the State Treasury.

R. PAYROLL AND RELATED BENEFITS ACCRUAL

Agencies will be required to reflect the 1996-97 accrued personal services cost for this fiscal year on the accompanying financial statement. The following schedule will aid you in doing so. As most agency units pay their employees biweekly this would require a fiscal year 1995-96 accrual calculation based on ten (10) days and the fiscal year 1996-97 calculation will be based on eleven (11) days. Agencies must also determine the federal match on this accrual calculation.

		FY 1995-96	FY 1996-97
1.	7/07/96 Payroll (Gross & Related)	$170,170	
2.	7/05/97 Payroll (Gross & Related)		$177,388
		x 100%	x 110%
3.	Payroll Accrual	$170,170	$195,127
4.	Estimated Federal receivable attributed to the accrual shown above	$	$

Personal Services Schedule

5.	Total Personal Services from Schedule 1 (lines 13, 14, & 15) (these lines include salaries, other compensation, and related benefits	$4,473,363
6.	Less 1995-96 accrual from line 3, Column 1 (above)	170,170
7.	Add 1996-97 accrual from line 3, Column 2 (above)	195,127
8.	To Statement - Personal Services	$4,498,320

Notes to the Financial Statement

S. RESERVE FOR CONTINUING OPERATION(S)

The Unit is by statute allowed to retain residual fund balance in order to finance future operations. For the fiscal year ended June 30, 19 97 the amount reserved was $128,076,634.55 .

Office/Fund	Louisiana Revised Statute	Reserve for Continuing Operation
#804-ORM	1950	$128,076,635
	TOTAL	$128,076,635

T. RELATED PARTY TRANSACTIONS

ORM maintains an IAT agreement with the AG's DRL for services. In FY 96/97 this agreement was capped at $ 8,285,562. Actual payments on this IAT were $7,947,173.95.

ADDENDUM TO THE NOTES TO THE CAFR

1. A description of the risks of loss to which the state is exposed and the ways in which those risks of loss are handled.

   There are four basic types of risks to which the State is exposed. Loss can occur as a result of (1) damage to property, (2) loss of property, (3) loss of income or increased costs because of damage to or loss of property, and (4) liability to others as a result of injury to persons or property. These four main types of risks are not mutually exclusive, they are interrelated. Many accidents and claims involve losses in several risk areas.

   Risk Management is a process for identifying and controlling risks. Until the mid 70's, the traditional method of minimizing losses was to transfer risk to a commercial insurance company. Over the years, the State has been pushed toward self-insurance because of increases in insurance premiums and policy cancellations by commercial insurance companies. Now the Office of Risk Management handles the risks to which the State is exposed through a program that includes self insurance to a specific level and excess commercial insurance above that level. The $ limits will vary according to coverage.

   The best way to insure against loss, however, is through loss prevention and safety programs. Such programs help minimize losses, save money, and most importantly, protect state employees and citizens. The Office of Risk Management aggressively pursues loss prevention through its own Loss Prevention Unit.

2. A description of any significant reductions in coverage from the prior year and whether settlements exceeded coverage for each of the three preceding fiscal years.

   There were no significant reductions in coverage during FY 96/97

   During the last four fiscal years, there were no claims that exceeded coverage.

   There have been significant changes in case law which will have had adverse impact on the state's liability in general liability claims. On September 3, 1993, the Supreme Court of Louisiana, per case No. 93-C-0472, reversed a lower court's decision in applying Louisiana Revised Statute 13:5106 (B)(1) which provides that "(I) any suit for personal injury, the total amount recoverable, exclusive of medical care and related benefits and loss of earnings, and loss of future earnings, as provided in this Section, shall not exceed five hundred thousand dollars ($500,000)." The Supreme Court held that the ceiling contravenes the constitutional proscription against sovereign immunity contained in LSA - Constitution, Article XII, § 10. As a result of this ruling, the $500,000 ceiling on general damages in a personal injury suit was removed and the State of Louisiana faced larger exposure in suits of this nature. This action is still having an adverse effect on claims reserves.

In 1995, the Louisiana electorate ratified a constitutional amendment authorizing the Legislature to cap liability. The result was tort reform acts passed by the Legislature which places a cap on general damages of $500,000 with no cap on special damages, and limits joint and solidary liability to a tort feasor's allocated degree of fault.

On May 9, 1996, Act No. 63, known as the "Louisiana Governmental Claims Act", was approved by the governor. This act placed limits on all suits for personal injury and wrongful death. The act states "the total amount recoverable, including all derivative claims, exclusive of property damages, medical care and related benefits and loss of earnings, and loss of future earnings, shall not exceed five hundred thousand dollars." This tort reform, although not retroactive on open cases, will have an effect on future claims by a reduction of costs.

3. The basis for estimating unpaid claim liabilities.

The philosophy relevant to ORM's reserving policy is based on the best determination of the State's exposure taking into consideration the severity of the injury and the comparative fault if applicable. In those cases where suit has been filed, the attorney is requested to evaluate the State's exposure as early as possible in order to establish a proper reserve.

Workers Compensation reserves are based on exposure determined by the severity of injury, age of claimant, education or lack of it, and potential for return to employment.

4. The carrying amount of unpaid claims liabilities included in the comprehensive annual financial statements of the State of Louisiana at present value and range of rates used to discount them.

ADDENDUM TO THE NOTES TO THE CAFR

Prior to FY 91/92, ORM discounted claim liabilities on year end statements. Beginning in FY 91/92, the State Legislature passed an Appropriation Bill that cut ORM's funding by 99%. This was repeated in FY 92/93. For FY 93/94, ORM received funding of approximately 50% of what is needed on a cash basis. In FY 94/95 ORM received funding of approximately 70% of what is needed on a cash basis. In FY 95/96 ORM received funding of approximately 80% of what is needed on a cash basis, which included a general fund appropriation of $10,488,526 towards deficit reduction. In FY 96/97 ORM received funding of approximately 75% of what is needed on a cash basis.

Because of the lack of funding, ORM discontinued discounting and has not discounted the present value of claim liabilities since FY 89/90.

The provision for losses and loss adjustment expenses includes paid and unpaid claims and expenses associated with settling claims, including legal fees. The liability for unpaid losses and loss adjustment expenses is based on claims adjusters' evaluations of individual claims and management's evaluation and an actuarial review of experience with respect to the probable number and nature of claims arising from losses that have been incurred but have not yet been reported. The liability represents the estimated ultimate cost of settling the claims, including the effects of inflation and other economic factors. Adjustments resulting from the settlement of losses are reflected in earnings at the time the adjustments are determined.

The present value of reserves for claim liabilities for FY 96/97 as reported on the financial statements totals $1,255,991,536. A further breakdown of this total follows:

	Total Reserves	Net of Estimated Recoveries
Current	$12,541,978	$12,517,250
Long-Term	$1,243,449,558	$1,240,997,904
Total	$1,255,991,536	$1,253,515,154

Changes in Aggregate Claims Liabilities

	Beg of F/Y Liab	Claims & Changes in Est	Claim Payments	Est. Recov from settled & unsettled claims	Balance @ F/Y
1992-93*	$642,395,392	$139,040,811	($113,665,754)	($50,031)	$667,720,418
1993-94	$667,720,418	$228,995,905	($53,916,903)	($345,195)	$842,454,225
1994-95	$842,454,225	$265,288,947	($89,878,735)	($345,849)	$1,017,518,588
1995-96	$1,017,518,588	$273,810,423	($121,308,199)	($300,682)	$1,169,720,130
1996-97	$1,169,720,130	$234,558,097	($150,597,533)	($165,541)	$1,253,515,153

* The beginning balance @ FY 1992-93 of the liability for unpaid claims was reduced by the estimated recoveries of settled and unsettled claims in the amount of $1,297,626 and the change in estimated recoveries is shown for each year thereafter, for a cumulative total of $2,476, 383 at June 30, 1997. Claims payments include all allocated loss adjustment expenses including legal expense and are net of actual recoveries on settled and unsettled claims.

5. The aggregate amount of claims liabilities outstanding for which annuity contracts were purchased in claimants' names and for which related liabilities have been removed from the balance sheet.

From time to time the Office of Risk Management purchases annuities as partial settlements of certain claims. At June 30, 1997, the total amount of annuities purchased was $56,471,898. The payment of the annuities to the claimants is made over a period of time by 3rd party trustees. There are currently 87 annuities that have been purchased. Fifty-four of the eighty-seven contain wording which releases ORM from further liability on the claims. The total of $56,471,898 represents annuities purchased for claims finalized in ORM's computerized Claims Management System from FY 86/87 through FY 96/97. The outstanding amount due on these annuities as of June 30, 1997 was $137,067,612.

During the 1997 Regular Session, House Bill No. 1820 was passed, enacting R.S. 39:1533.1 which establishes a master reversionary trust fund in the state treasury for the purpose of funding reversionary medical trusts. The fund is to be administered by the State Treasurer's Office in accordance with rules and regulations promulgated in consultation with the Office of Risk Management. Previously ORM purchased annuities to pay future medical costs on claims for which a judgement was issued. The bulk fund will provide funding for all such medical costs eliminating the need for purchase of separate instruments.